

Company: Southern California Gas Company (U 904 G)  
Proceeding: 2028 General Rate Case  
Application: A.26-06-\_\_\_\_  
Exhibit: SCG-28

**PREPARED DIRECT TESTIMONY OF RICARDO GONZALEZ**

**(POST-TEST YEAR RATEMAKING)**

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**



**June 2026**

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## SUMMARY

My testimony sponsors Southern California Gas Company's (SoCalGas or the Company) request to authorize a post-test year (PTY) ratemaking mechanism that would enable the Company to recover capital investment costs and annual expenses necessary to operate and maintain its assets in a safe and reliable manner. The PTY proposal would result in revenue requirement increases of:

(\$ in millions)	2029		2030		2031	
Revenue Requirement Increase	6.19%	\$315	5.77%	\$312	5.49%	\$314

- SoCalGas's proposed PTY ratemaking mechanism is as follows:
  - Operations and Maintenance (O&M)-related revenue requirement:
    - General O&M test-year cost forecast (labor and non-labor) escalated by S&P Global's utility cost escalation factors forecast, and
    - Medical costs forecast escalated by WTW's (formerly known as Willis Towers Watson) actuarial forecast.
  - Capital-related revenue requirement:
    - Test-year capital additions forecast escalated using S&P Global's utility cost escalation factors, and
- I also propose:
  - A four-year term (2028-2031) for this test year (TY) 2028 General Rate Case (GRC) cycle, consistent with Decision (D.) 20-01-002;
  - Continuation of the currently authorized Z-factor mechanism;
  - Continued use of annual PTY advice letter regulatory filings to update the authorized revenue requirements per the adopted two-part PTY ratemaking mechanism; and
  - An Earnings Sharing Mechanism that shares returns above or below authorized Rate of Return (ROR) with ratepayers and shareholders during the post-test years, within a defined range and subject to suspension as described below.

1                                   **PREPARED DIRECT TESTIMONY OF RICARDO GONZALEZ**  
2                                   **(POST-TEST YEAR RATEMAKING)**

3   **I.       INTRODUCTION**

4       **A.       Summary of Proposals**

5           I, Ricardo Gonzalez, sponsor SoCalGas’s request to authorize a PTY ratemaking  
6 mechanism for the 2028 GRC. This proposal establishes authorized revenues for 2029 through  
7 2031 (the PTY period). SoCalGas proposes a two-part PTY ratemaking mechanism to adjust its  
8 authorized revenue requirement in the post-test years by applying one methodology for attrition  
9 adjustments for O&M expenses (including a separate attrition adjustment for medical expenses),  
10 and another methodology for capital-related costs to reflect ongoing capital additions during the  
11 PTY period. This two-part structure reflects the different drivers of O&M and capital-related  
12 revenue requirements that represent the cost of utility service. Because O&M expenses and  
13 capital investments affect revenue requirement differently, a two-part PTY mechanism is  
14 necessary for SoCalGas to meet its obligations to provide safe and reliable utility service and  
15 also have an opportunity to earn the reasonable rate of return (ROR) previously authorized by the  
16 California Public Utilities Commission (CPUC or Commission).<sup>1</sup>

17           SoCalGas provides post-test year capital investment forecasts in the cost witness  
18 testimonies and workpapers to show expected investment levels during the full GRC cycle.  
19 These forecasts are provided for context and are not used as a direct input into the proposed  
20 mechanism. This is because the Commission has consistently declined to adopt post-test year  
21 capital investment forecasts (also referred to as budget-based ratemaking) for all capital costs  
22 explaining that post-test year ratemaking “is not intended to replicate test year analysis.”<sup>2</sup>  
23 Instead, the proposed post-test year mechanism relies on authorized test-year capital additions as  
24 a proxy for capital additions expected to go in service during the PTY period. Because test year  
25 amounts are subject to Commission review and approval in this GRC proceeding, they provide a  
26 reasonable basis for supporting continued funding into the PTY period, as discussed further  
27 below.

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<sup>1</sup> D.25-12-043 at 72 (Ordering Paragraph 2) in Application 25-03-001/013 (cons.) authorized a rate of return of 7.52% for SoCalGas for test year 2026.

<sup>2</sup> See D.20-01-002 at 41 (internal citation omitted); see also D.24-12-074 at 1026, Findings of Fact (FOF) 434; D.25-09-030 at 951, FOF 848.

1 SoCalGas proposes an Earnings Sharing Mechanism to be effective during the PTY  
 2 period. The mechanism provides for sharing of actual GRC-related returns above or below  
 3 SoCalGas’s authorized ROR within a defined range (subject to suspension) between ratepayers  
 4 and shareholders during the post-test years, while balancing risk and maintaining appropriate  
 5 incentives for cost management and operational performance. This construct helps preserve  
 6 accountability for managing costs and operational performance within the control of the utility.

7 In sum, SoCalGas proposes:

- 8 (1) A four-year term (2028-2031) for this GRC cycle;
- 9 (2) Calculating the PTY O&M revenue requirement by escalating the authorized test  
 10 year O&M revenue requirement by S&P Global’s utility cost escalation factors  
 11 (excluding medical expenses);<sup>3</sup>
  - 12 • Adopting WTW’s actuarial forecasts and escalations to determine PTY  
 13 medical expenses;
- 14 (3) Calculating PTY capital-related revenue requirements by escalating the  
 15 authorized test year capital additions forecast by S&P Global’s utility cost  
 16 escalation factors;
- 17 (4) Continuing the currently authorized Z-factor mechanism; and
- 18 (5) Adopting an earnings sharing mechanism that shares earnings above or below  
 19 authorized within a defined range, subject to limited off-ramps.

20 Using the proposed PTY mechanism for 2029, 2030, and 2031, SoCalGas’s proposal  
 21 would result in the following attrition year revenue requirement increases:

22 **TABLE RG-1**  
 23 **Summary of Revenue Requirement Request**

(\$ in millions)	2029		2030		2031	
Revenue Requirement Increase	6.19%	\$315	5.77%	\$312	5.49%	\$314

24 **B. Support Of/From Other Witnesses**

25 My testimony also references the testimony and workpapers of other witnesses, either in  
 26 support of their testimony or as support for mine.

- 27 • Summary of Earnings testimony (Exhibit (Ex.) SCG-27)
- 28 • Escalation and Gas Customer Forecast testimony (Ex. SCG-20/SDGE-24)

29 <sup>3</sup> Franchise fees and uncollectible expense are also excluded from O&M escalation.

- Compensation and Benefits testimony, Ex SCG-16/SDGE-20
- Pension and PBOP testimony (Ex. SCG-17/SDGE-21)

## **II. SoCalGas’s PROPOSED GRC TERM**

D.20-01-002 adopted revisions to the Rate Case Plan (RCP), including moving the investor-owned utilities to a four-year GRC cycle schedule (test year and three attrition years). According to the schedule adopted in D.20-01-002, SoCalGas’s next test year would be 2032. SoCalGas proposes a four-year term of 2028-2031 for this GRC, with its next GRC cycle beginning with TY 2032. Accordingly, SoCalGas proposes no changes to the term and schedule adopted in D.20-01-002.

## **III. POST-TEST YEAR RATEMAKING MECHANISM**

### **A. Background**

SoCalGas is proposing a four-year TY 2028 GRC cycle with a two-part attrition mechanism for revenue requirement adjustments in the second, third, and fourth years (2029, 2030, and 2031). Revenue requirement is a term used for the calculation of total O&M and capital-related costs necessary to support SoCalGas’s rate base to be collected from utility ratepayers.<sup>4</sup> This testimony describes how SoCalGas’s PTY mechanism escalates the TY 2028 base margin component of revenue requirement,<sup>5</sup> which is described in the Summary of Earnings testimony (Ex. SCG-27). Escalation on miscellaneous revenues will not be requested because miscellaneous revenues are proposed to be fixed amounts for the post-test year period, and franchise fees and uncollectible expense items are not subject to escalation because they are proposed to be applied as fixed rates for the post-test year period.

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<sup>4</sup> Depreciation, tax, and authorized return on rate base are referred to as “capital-related costs,” which are separate and distinct from actual or forecasted expenditure of capital. When dollars are spent on capital investments, they become part of rate base. The utility is entitled to recover the capital-related costs associated with approved capital expenditures through revenue requirement. *See* D.20-01-002 at 8 (noting that “a GRC is a proceeding in which the Commission authorizes an investor-owned utility to recover through rates the reasonable capital investment costs and annual expenses necessary to operate and maintain its facilities and equipment in a safe and reliable manner.”).

<sup>5</sup> SoCalGas uses the term “revenue requirement” throughout this testimony as a general term to indicate base margin, excluding miscellaneous revenues. SoCalGas is not proposing escalation of authorized miscellaneous revenues.

1 The GRC framework provides for an annual two-part attrition mechanism for interim  
2 adjustments to the test-year revenue requirements in the post-test years.<sup>6</sup> Attrition mechanisms  
3 should provide reasonable and sufficient funding for on-going operating expenses, capital  
4 investments (aka capital additions), and inflation. A two-part attrition mechanism is necessary  
5 because O&M expenses and capital-related costs affect revenue requirements in fundamentally  
6 different ways and therefore require distinct treatment. As explained in SoCalGas and SDG&E's  
7 Petition for Modification, O&M expenses are generally incurred and recovered within a single  
8 year, while capital-related costs (depreciation, taxes, and authorized return) are recovered over  
9 time.<sup>7</sup> The direct relationship between O&M costs and O&M revenue requirement makes the  
10 test year revenue requirement, with an inflation-based escalator, a suitable proxy for the post-test  
11 years. The same is not true for capital revenue requirement.<sup>8</sup>

12 Capital revenue requirement depends on the relationship between capital (also referred to  
13 as plant additions, which is the capital that is placed in-service) and retirements, as well as the  
14 timing and magnitude of when capital additions enter rate base. The difference between capital  
15 additions and retirements are referred to in my workpapers as Net Plant Additions. Although  
16 capital additions are expected to exceed retirements in each post-test year, resulting in overall  
17 growth, the timing of those additions and the compounding nature of capital costs creates  
18 variability that cannot be captured through simple escalation of the total revenue requirement  
19 (O&M and capital). For example, a capital project with a 2029 in-service date may be included  
20 in an approved capital forecast but would not impact the 2028 test year revenue requirement due  
21 to the in-service date. The result of a single-part mechanism that escalates the total test year  
22 revenue requirement, as illustrated through this example, is a shortfall in capital revenue  
23 requirement. Because the escalation is applied to a test year baseline that excludes these known  
24 capital additions, the mechanism does not capture the revenue requirement impacts of assets  
25 placed in service after the test year. To the extent SoCalGas makes the necessary investments  
26 despite not being authorized the full capital revenue requirement, that shortfall (i.e., loss of

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<sup>6</sup> The Commission's RCP recognizes that attrition year funding is typically determined using a two-part mechanism. *See* D.20-01-002 at 8.

<sup>7</sup> A.22-05-015/016 (cons.) Petition of SoCalGas and SDG&E for Modification of Decision 24-12-074 (December 17, 2025) at 9-11, *available at* <https://www.socalgas.com/sites/default/files/2025-12/A2205015-RM-SCG-SDGE-Petition-for-Modification.pdf>.

<sup>8</sup> *Id.* at 13-18.

1 depreciation, taxes and return) is not recovered even though the customers are benefiting from  
2 the assets being in-service.<sup>9</sup> This outcome demonstrates that a single-part escalation mechanism  
3 systematically understates capital-related revenue requirements in the post-test years and fails to  
4 provide timely, full recovery of Commission-authorized investments.

5 The other impact of a single-part mechanism is an inflated comparison to the next GRC's  
6 request. This is because the authorized post-test year mechanism is too low (due to the shortfall  
7 described above), making the dollar increase and percentage increase, compared to the next  
8 GRC's test year request, significantly higher. This is the case in the instant proceeding.  
9 Accordingly, escalating the test year revenue requirement alone would omit necessary and  
10 required revenue requirement associated with continuing investments that provide ratepayer  
11 benefits during the GRC cycle. Separate mechanisms for O&M and capital-related costs are  
12 necessary to accurately reflect their distinct cost drivers and differing impacts on revenue  
13 requirements.

14 In adopting a two-part attrition mechanism in prior adjudicated rate case proceedings, the  
15 Commission observed that,

16 Since O&M expenses and capital expenditures affect the revenue  
17 requirement differently, we find that a two-part attrition  
18 mechanism, where O&M expenses and capital-related revenues are  
19 separately escalated, is reasonable. Therefore, we find it  
20 reasonable to apply different PTY mechanisms for O&M and for  
21 capital additions.<sup>10</sup>

22 In addition, Pacific Gas and Electric Company's (PG&E) 2023 GRC affirms the adoption  
23 of a two-part PTY mechanism, finding it "reasonable to treat expense and capital-related costs  
24 differently for purposes of post-test year ratemaking."<sup>11</sup> Similarly, in Southern California  
25 Edison Company's (SCE) 2025 GRC, the Commission emphasized the need for distinct  
26 treatment or escalation of capital and operating costs when adopting a two-part mechanism.<sup>12</sup>

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<sup>9</sup> The shortfall in capital-related revenue requirement incurred in the PTY period will never be recovered.

<sup>10</sup> D.19-09-051 at 707.

<sup>11</sup> D.23-11-069 at 707-708.

<sup>12</sup> D.25-09-030 at 843.

1 SoCalGas expects to make significant annual capital investments over the TY 2028 GRC  
2 cycle and adoption of an appropriate capital attrition mechanism is crucial to SoCalGas’s ability  
3 to recover its investments and have the opportunity to earn its authorized ROR while continuing  
4 to invest in the safety and reliability of its system. The investments necessary to build and  
5 maintain safe and reliable infrastructure is emphasized throughout the testimony of SoCalGas  
6 witnesses sponsoring TY 2028 cost forecasts and aligns with SoCalGas’s mission to maintain  
7 and enhance its safety-focused culture. Thus, the level of forecasted capital expenditures leading  
8 up to and including TY 2028 is part of an ongoing investment effort, which will continue beyond  
9 the test year period. Accordingly, the adopted PTY attrition mechanism should reflect the  
10 growth in capital additions expected in the PTY period.

## 11 **B. Proposed Post-Test Year O&M Margin Escalation**

12 SoCalGas proposes to separately escalate authorized test year (1) general O&M costs,  
13 and (2) medical expenses. Productivity improvements will be used to mitigate any increased  
14 operating costs beyond the proposed escalations. Appendix B provides a calculation of the 2029  
15 through 2031 revenue requirements using S&P Global’s forecasted escalation factors for general  
16 O&M costs and WTW forecasted escalation factors for medical costs.

### 17 **1. General O&M Escalation Factors**

18 SoCalGas is proposing a PTY ratemaking mechanism that escalates O&M costs using  
19 S&P Global’s utility-specific forecast, as described in the Escalation & Gas Customer Forecast  
20 testimony (Ex. SCG-20/SDGE-24). O&M costs are largely influenced by broad economic cost  
21 pressures and tend to follow a steady, incremental growth pattern over time, which makes them  
22 appropriate for adjustment using standardized escalation indices. The Escalation & Gas  
23 Customer Forecast testimony (Ex. SCG-20/SDGE-24) describes using the S&P Global’s forecast  
24 to develop separate weighted-average labor and non-labor O&M escalation factors, then creating  
25 a single weighted-average labor and non-labor O&M escalation factor based on 2025 recorded  
26 expenses. Additionally, the escalation factor based on S&P Global’s forecast is weighted to  
27 incorporate “Utility Service Works,” “Managers and Administrators,” and “Professional and  
28 Technical Workers” and is therefore more appropriate as an industry-specific source for  
29 escalation. For PTY attrition calculation purposes (*see* Appendix B), SoCalGas has used the  
30 S&P Global’s 4<sup>th</sup> Quarter 2025 forecast (released in January 2026), which resulted in single  
31 weighted average O&M escalation factors. The associated revenue requirements are:

**TABLE RG-2**  
**O&M Margin Escalation Summary**

(\$ in millions)	2029		2030		2031	
O&M Margin Escalation	2.42%	\$42	2.56%	\$46	2.65%	\$49

The Commission has previously adopted index-based escalation to use in escalating attrition year revenue requirement in multiple recent GRC decisions, including in PG&E’s 2023 GRC cycle, because it more accurately reflects how utilities incur costs. In assessing the reasonableness of PG&E’s PTY ratemaking mechanism, the Commission concluded:

For this proceeding, the Commission finds reasonable the use of the energy-specific indexes in the S&P’s IHS Markit’s indexes (which is the same index that PG&E uses to escalate its expense from the recorded 2020 base year to the test year 2023) to adjust expense in the post-test years because the use of indexes is consistent with the Commission’s historical practice for forecasting expense in the post-test years. In addition, these indexes provide a more accurate estimation of future costs for the procurement of goods and services in the utility industry than other indexes presented in this proceeding. This finding is supported by the Commission’s recent decision regarding SCE’s expense forecast for the post-test years in D.21-08-036, which also addressed a large energy utility GRC.<sup>13</sup>

**2. Medical Cost Escalation**

The second component of the O&M PTY ratemaking mechanism is an adjustment for projected medical costs. Medical costs reflect a distinct cost driver within O&M expenses. As discussed in the Compensation & Benefits testimony (Ex. SCG-16/SDGE-20) and the Pension and PBOP testimony (Ex. SCG-17/SDGE-21), SoCalGas has experienced significant upward pressure in medical costs, and industry surveys indicate that these trends are expected to persist at levels above historical norms.<sup>14</sup> Because SoCalGas anticipates medical cost growth to outpace general utility cost inflation, and because escalation mechanisms should reasonably reflect how

<sup>13</sup> D.23-11-069 at 708-709 (citation omitted).

<sup>14</sup> See WTW, *Employers explore major program changes in response to escalating healthcare costs, Findings from WTW’s 2025 Best Practices in Healthcare Survey* (2025) at 4. Counsel will make the source available upon request.

1 costs are incurred, SoCalGas proposes that medical costs be escalated separately using actuarial  
2 forecasts.

3 SoCalGas relies on the actuarial forecast prepared by WTW, which reflects medical cost  
4 trends by considering state and national data, workforce demographics, historical utilization data,  
5 and medical plan design.<sup>15</sup> The WTW methodology is standardized, widely used across  
6 industries, and subject to professional actuarial standards.<sup>16</sup> The proposed medical cost  
7 escalation, based on WTW's actuarial forecast, along with the associated revenue requirement, is  
8 presented in Table RG-3 below:

9 **TABLE RG-3**  
10 **O&M Medical Component Escalation Summary**

(\$ in millions)	2029		2030		2031	
Medical Cost Escalation	6.00%	\$6	5.75%	\$6	5.25%	\$6

11 **C. Proposed Post-Test Year Capital Additions Mechanism**

12 The second component of SoCalGas's PTY ratemaking mechanism is the treatment of  
13 capital-related revenue requirement. Appendix B illustrates the calculation of the 2029 through  
14 2031 revenue requirements using S&P Global's current forecasts of capital cost escalation. For  
15 the capital component of the proposed PTY ratemaking mechanism, SoCalGas proposes to adjust  
16 revenue requirements to reflect the adopted test year capital additions forecast with escalation.

17 The capital-related revenue requirement is comprised of depreciation expense, taxes, and  
18 authorized return on rate base. Changes to the capital-related revenue requirement are primarily  
19 determined by the relationship between capital additions, retirements, and depreciation. When  
20 capital additions exceed retirements, rate base grows, increasing both depreciation expense and  
21 return, and thereby driving higher capital-related costs.

22 SoCalGas's capital plan includes sustained investment to support system safety,  
23 reliability, and customer service, including routine infrastructure replacement, distribution  
24 system modernization, safety and integrity programs, and other capital projects necessary to  
25 maintain and upgrade the utility's gas systems. And SoCalGas expects capital additions to

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<sup>15</sup> See also Pension and PBOP testimony (Ex. SCG-17/SDGE-21) at Table SS-6; Compensation & Benefits (Ex. SCG-16/SDGE-20) (attaching WTW Study).

<sup>16</sup> See also D.19-05-020 at 418, Conclusions of Law (COL) 114 and D.21-08-036 at 542, 547, and 668, COL 184 (adopting specific medical expense escalation).

1 exceed retirements throughout the PTY period. As a result, capital-related costs will increase  
2 due to ongoing investment levels and the cumulative, or compounding, effect of successive  
3 vintages of plant placed in service. This compounding dynamic is a fundamental characteristic  
4 of utility investment. As new capital additions are layered onto prior vintages, capital-related  
5 costs grow based on both existing plant and newly placed assets. Accordingly, SoCalGas  
6 proposes a post-test year mechanism that reflects the forecasted increase in capital additions in  
7 the post-test years and associated increase in capital-related costs, consistent with the  
8 compounding nature of ongoing investment. The proposed capital additions mechanism reflects  
9 the underlying drivers of capital placed in service, capturing the cumulative nature of investment  
10 over the GRC cycle, and aligning authorized revenue with the resulting growth in capital-related  
11 costs.

12 To estimate PTY capital additions, SoCalGas proposes to use the authorized test-year  
13 (2028) capital additions forecast as a baseline and escalate it using S&P Global’s capital cost  
14 indices for the annual PTY 2029, 2030, and 2031 period. This approach is consistent with prior  
15 Commission practice. For example, in PG&E’s TY 2023 GRC Decision, the Commission  
16 adopted a mechanism that escalated the test-year capital additions forecast using industry-  
17 specific indices.<sup>17</sup> Similarly, in SCE’s 2025 GRC Decision, the Commission affirmed the use of  
18 test-year capital additions as the foundation for post-test-year adjustments.<sup>18</sup>

19 Using test-year capital additions as the baseline for post-test-year capital forecasting,  
20 rather than relying on multi-year historical averages, is appropriate because such averages may  
21 reflect outdated conditions that are no longer representative or indicative of the current  
22 landscape. Test-year ratemaking is designed to establish revenue requirements based on  
23 reasonable expectations about the utility’s future cost of service. SoCalGas develops its test-year  
24 capital plan through an enterprise-wide process grounded in risk assessment and prioritization of  
25 safety and reliability, which is then subject to detailed Commission review. Thus, a test-year  
26 capital additions mechanism more accurately reflects current system needs and the structure of  
27 SoCalGas’s capital program. This approach aligns post-test-year forecasts with the Commission-

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<sup>17</sup> D.23-11-069 at 699 and 713.

<sup>18</sup> D.25-09-030 at 838 and 843.

1 reviewed 2028 test-year capital forecast and supports continued investment in safe, reliable, and  
2 sustainable service.

3 Further, although capital spending comprises many individual projects, SoCalGas's  
4 capital portfolio is predominantly programmatic. Approximately 72% of forecasted capital  
5 expenditures for 2026-2028 are recurring in nature, including asset replacement, system integrity  
6 work, and distribution and gas modernization that require continued investment over time.  
7 Because these programs are ongoing and expected to continue into the post-test-year period, it is  
8 reasonable to use test-year capital additions as the foundation for a capital attrition mechanism  
9 during this GRC cycle. This approach provides a clear linkage between Commission-approved  
10 capital forecasts, test-year capital revenue requirements, and post-test-year revenue needs.

11 Under this methodology, SoCalGas will (1) establish the test-year 2028 capital additions,  
12 (2) escalate that level to the appropriate dollars for each post-test-year (2029, 2030, and 2031)  
13 using the S&P Global gas plant indices (as described in the Escalation & Gas Customer Forecast  
14 testimony (Ex. SCG-20/SDGE-24)), and (3) incorporate the escalated amounts into rate base  
15 using standard plant in-service weighting. Depreciation, amortization, and deferred taxes will be  
16 calculated using test-year ratios to derive weighted-average rate base for each post-test year.

17 The resulting 2029 through 2031 capital-related revenue requirements are summarized in  
18 Table RG-4:

19 **TABLE RG-4**  
20 **Capital-Related Component Summary**

(\$ in millions)	2029		2030		2031	
Capital-Related Revenue Requirement Increase <sup>19</sup> ,	8.67%	\$260	7.79%	\$254	7.20%	\$253

21  
22 **IV. EARNINGS SHARING MECHANISM**

23 The California regulatory framework is designed to incentivize utilities to operate more  
24 efficiently by allowing utilities to retain the benefits of cost control and strong performance in  
25 the short-term with the knowledge that those efficiencies will be passed onto ratepayers in future  
26 GRCs through lower cost forecasts and resulting revenue requirements. This dynamic creates a

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<sup>19</sup> Annual revenue requirement adjustments include the rate base impacts of the subject attrition year estimated capital additions plus the residual weighting of the prior year estimated capital additions.

1 long-term win-win for both the utility and its ratepayers. SoCalGas is proposing an Earnings  
 2 Sharing Mechanism which applies this same principle, while advancing ratepayer affordability  
 3 within the current GRC cycle by providing more immediate ratepayer relief and offsetting costs.

4 For this GRC cycle, SoCalGas proposes an annual Earnings Sharing Mechanism  
 5 applicable during the post-test years, 2029 through 2031, pursuant to a 3-band framework.<sup>20</sup> The  
 6 proposed framework includes a 200 basis point “inner band” around the ROR, as well as two  
 7 outer sharing bands above and below this range. Within the inner band of 0 to 200 basis points  
 8 above or below the authorized ROR, shareholders retain 100 percent of returns above the  
 9 authorized ROR and absorb 100 percent of returns below the authorized ROR. This preserves  
 10 appropriate incentives for efficient operations and cost management. In the 201 to 250 basis  
 11 point band, returns above or below the authorized ROR are shared 50/50 between ratepayers and  
 12 shareholders. The mechanism also includes a 250-basis-point earnings threshold, above which  
 13 ratepayers receive 100 percent of returns in excess of that level. A reciprocal structure applies  
 14 on the downside (below 250 basis points).

15 The table below illustrates the framework for SoCalGas’s proposed Earnings Sharing  
 16 Mechanism. Measurement of return would exclude cost and revenues associated with non-GRC  
 17 activities. The mechanism is subject to a suspension in the event of a triggering extraordinary or  
 18 non-controllable event, as described in more detail below, to ensure that only controllable  
 19 performance is measured for purposes of the sharing mechanism.

20 **TABLE RG-5**  
 21 **Earnings Sharing Mechanism**

<u>Bands</u>	<u>Basis Points Above/Below Authorized ROR</u>	<u>Ratepayer %</u>	<u>Shareholder %</u>
Inner	0-200	0	100
1	201-250	50	50
2	Above 250	100	0

22 The proposed sharing mechanism is subject to suspension for extraordinary or non-  
 23 controllable events. If a triggering event occurs and SoCalGas’s achieved ROR is 201 basis  
 24 points or more above or below the authorized ROR as a result of that event, the Earnings Sharing  
 25 Mechanism may be suspended. Triggering events may include significant exogenous or non-

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<sup>20</sup> No returns sharing will apply in 2028.

1 operational factors; such as catastrophic events (e.g., wildfires, mudslides, earthquakes, etc.),  
2 major regulatory or legislative matters (e.g., disallowances), material accounting or tax matters  
3 (e.g., ROE deferrals, bonus depreciation, etc.), large legal or settlement outcomes that could  
4 distort return outcomes beyond management’s reasonable control. Given its annual structure, the  
5 mechanism and SoCalGas’s proposal to share any qualifying returns with ratepayers will be  
6 evaluated each year to determine whether a trigger event has occurred that may lead to  
7 suspension.

8 Overall, this proposed mechanism is designed to balance ratepayer protection with  
9 continued incentives for efficient utility operations. It maintains strong incentive for cost control  
10 and operational performance within the inner band, while ensuring that material deviations, both  
11 positive and negative, are appropriately allocated to protect ratepayers and supports SoCalGas’s  
12 financial stability.

#### 13 **V. Z-FACTOR MECHANISM**

14 SoCalGas proposes to continue the currently authorized Z-factor mechanism, unchanged  
15 for this 2028-2031 GRC term.<sup>21</sup> The Z-factor mechanism uses a series of eight criteria outlined  
16 in D.94-06-011<sup>22</sup> and related decisions to identify exogenous cost changes that qualify for rate  
17 adjustments prior to the next GRC test year.<sup>23</sup> If all eight criteria are met, the Z-factor  
18 mechanism allows for rate adjustments for only the portion of the Z-factor costs not already  
19 contained in SoCalGas’s annual revenue requirement and only for costs that exceed a \$5 million  
20 deductible per event.

21 In the case of a potential Z-factor event, SoCalGas will notify the Commission’s  
22 Executive Director of the event by letter, providing all relevant and available information about  
23 the event, and will activate the Z-factor Memorandum Account for potential entries. Following

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<sup>21</sup> See SoCalGas’s Tariff Preliminary Statement (Part IV) for a description of the operation of the Z-factor mechanism, available at <https://tariffsprd.socalgas.com/view/tariff/?utilId=SCG&bookId=GAS&tarfKey=361>.

<sup>22</sup> See D.94-06-011, 1994 Cal. PUC Lexis 456.

<sup>23</sup> In D.05-03-023 at 78 (Ordering Paragraph 2) (“SoCalGas and SDG&E are authorized to file for rate adjustments using the mechanisms as described in the Settlement Agreement and as modified in this decision”); see also *id.*, Appendix C at 12. The eliminated criteria provided that the costs and events are not part of the rate update mechanism.

1 this notification, SoCalGas would have the option to file an application for a revenue  
2 requirement supplement if the Z-factor event exceeds the \$5 million per event deductible.

### 3 **VI. REGULATORY FILINGS**

4 Currently, SoCalGas updates PTY revenue requirements through an annual advice letter  
5 filing. SoCalGas proposes to continue the process authorized in D.19-09-051 and D.24-12-074  
6 to file an annual Tier 1 advice letter on or before November 1 (beginning November 1, 2028) to  
7 adjust the revenue requirement for each attrition year, per the adopted PTY ratemaking  
8 mechanism.<sup>24</sup> The resulting customer rate adjustments to recover the updated revenue  
9 requirement would be effective January 1 of each PTY. The advice letter will contain all  
10 calculations necessary to update the revenue requirement for the subsequent year.

11 SoCalGas proposes that, with respect to its Earnings Sharing Mechanism, it will file a  
12 Tier 2 advice letter to report on actual vs. authorized returns in accordance with the applicable  
13 Commission decision. The Tier 2 advice letter will be submitted within 60 days following the  
14 filing of SoCalGas' annual FERC Form 2 for the applicable year. The advice letter will include  
15 all supporting calculations and documentation necessary to demonstrate the level of returns, any  
16 resulting sharing obligations consistent with the adopted framework, and proposed rate  
17 implementation, if any.

### 18 **VII. CONCLUSION**

19 SoCalGas proposes a reasonable, two-part PTY attrition mechanism that separately  
20 escalates O&M and capital-related components, recognizing their different impacts on revenue  
21 requirement. This approach provides the necessary PTY revenue requirement to support on-  
22 going safety and reliability investments throughout the GRC cycle. Similar two-part  
23 mechanisms have recently been approved by the Commission for peer IOUs, and it is reasonable  
24 to approve such a mechanism here.<sup>25</sup>

25 The Commission should find reasonable SoCalGas's use of utility-specific S&P Global  
26 indices to escalate general O&M and to translate the test-year capital additions into PTY  
27 capital-related revenue requirements, as well as its use of an independent WTW actuarial

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<sup>24</sup> See D.24-12-074 at 895-896; D.19-09-051 at 713.

<sup>25</sup> See, e.g., D.23-11-069 at 707-708; D.25-09-030 at 838-843.

1 forecast to escalate medical costs separately from general O&M. Additionally, SoCalGas seeks  
2 approval for the continuation of the current Z-factor mechanism.

3 Finally, SoCalGas also proposes an Earnings Sharing Mechanism to operate during the  
4 PTY period, providing a structured framework for addressing return variability. The mechanism  
5 shares returns outside a defined range, while incorporating suspension of the mechanism for  
6 extraordinary or non-controllable events.

7 This concludes my prepared direct testimony.

1 **VIII. WITNESS QUALIFICATIONS**

2 My name is Ricardo Gonzalez. My business address is 555 West 5th Street, Los Angeles,  
3 CA 90013.

4 I am currently employed by SoCalGas as the Financial Planning Director. My  
5 responsibilities include the company's proforma financial statements, including cash and  
6 financing plans, financial planning for capital and operating expenses, and incremental  
7 projects. I have been employed by SoCalGas since 2003 and have held numerous roles of  
8 increasing responsibility primarily within the Accounting Operations, Utility Accounting, and  
9 Financial & Business Planning departments.

10 I received a Bachelor of Science degree in Business Administration with an emphasis in  
11 Finance from California State University, Northridge in 2002. I also received a Master of  
12 Business Administration degree with an emphasis in Global Business from the Graziadio School  
13 of Business and Management at Pepperdine University in 2010. I am a Certified Public  
14 Accountant in the State of California and a Certified Management Accountant.

15 I have previously testified before this Commission.

**APPENDIX A – GLOSSARY OF TERMS**

Commission or CPUC	California Public Utilities Commission
CPI	Consumer Price Index
D.	Decision
GRC	General Rate Case
O&M	Operations and Maintenance
PG&E	Pacific Gas and Electric Company
PTY	Post-Test Year
RAMP	Risk Assessment and Mitigation Phase
RCP	Rate Case Plan
ROR	Rate of Return
SCE	Southern California Edison Company
SDG&E	San Diego Gas & Electric Company
SoCalGas	Southern California Gas Company
TY	Test Year
WTW	Willis Towers Watson

## **APPENDIX B – POST TEST YEAR ESCALATION EXAMPLES**

## APPENDIX B – POST TEST YEAR ESCALATION EXAMPLES

### SCG/POST-TEST YEAR SOUTHERN CALIFORNIA GAS COMPANY

#### Exemplary Calculation of 2029, 2030, and 2031 Revenue Requirements Assuming No Z-Factor

For Illustrative Purposes Only

Line No.	Description	(\$ in Millions)	
		Rev Req*	Escalation
<b>1</b>	<b>2028 Total Revenue Requirement</b>	<b>\$ 5,096.3</b>	
2	Less: 2028 Misc. Revenues	\$ 141.1	
3	Less: 2028 Capital Related Margin	\$ 2,996.3	
4	Less: 2028 Medical Expense	\$ 100.6	
5	Less: 2028 Franchise & Uncollectible	\$ 109.9	
6	2028 Escalatable O&M	\$ 1,748.4	
7	2029 O&M Escalation Rate	2.42%	
8	2029 O&M Escalation \$ (L6 * L7)	\$ 42.4	\$ 42.4
9	2029 Medical Escalation Rate	6.00%	
10	2029 Medical Escalation \$ (L4 * L9)	\$ 6.0	\$ 6.0
11	2029 Capital Related Costs (as Proposed)	\$ 259.8	\$ 259.8
12	2029 O&M (L6 + L8)	\$ 1,790.8	
13	2029 Medical Expense (L4 + L10)	\$ 106.6	
14	2029 Capital Related Costs (as Proposed) (L3 + L11)	\$ 3,256.1	
15	2029 Misc. Revenue	\$ 141.1	
16	2029 FF&U	\$ 117.0	\$ 7.1
<b>17</b>	<b>2029 Revenue Requirement (Sum of Lines 12 through 16)</b>	<b>\$ 5,411.6</b>	<b>\$ 315.26</b>
18	Less: 2029 Misc. Revenues	\$ 141.1	
19	Less: 2029 Capital Related Costs (as Proposed)	\$ 3,256.1	
20	Less: 2029 Medical Expense	\$ 106.6	
21	Less: 2029 Franchise & Uncollectible	\$ 117.0	
22	2029 Escalatable O&M	\$ 1,790.8	
23	2030 Based Margin Escalation Rate	2.56%	
24	2030 O&M Escalation \$ (L22 * L23)	\$ 45.8	\$ 45.8
25	2030 Medical Escalation Rate	5.75%	
26	2030 Medical Escalation \$ (L20 * L26)	\$ 6.1	\$ 6.1
27	2030 Capital Related Costs (as Proposed)	\$ 253.5	\$ 253.5
28	2030 O&M (L22 + L24)	\$ 1,836.6	
29	2030 Medical Expense (L20 + L26)	\$ 112.8	
30	2030 Capital Related Costs (as Proposed) (L19 + L27)	\$ 3,509.7	
31	2030 Misc. Revenue	\$ 141.1	
32	2030 FF&U	\$ 124.0	\$ 7.0
<b>33</b>	<b>2030 Revenue Requirement (Sum of lines 28 through 32)</b>	<b>\$ 5,724.0</b>	<b>\$ 312.47</b>

34	Less: 2030 Misc. Revenues	\$	141.1		
35	Less: 2030 Capital Related Costs (as Proposed)	\$	3,509.7		
36	Less: 2030 Medical Expense	\$	112.8		
37	Less: 2030 Franchise & Uncollectible	\$	124.0		
38	2030 Escalatable O&M	\$	1,836.6		
39	2031 Based Margin Escalation Rate		2.65%		
40	2031 O&M Escalation \$ (L38 * L39)	\$	48.6	\$	48.6
41	2031 Medical Escalation Rate		5.25%		
42	2031 Medical Escalation \$ (L36 * L41)	\$	5.9	\$	5.9
43	2031 Capital Related Costs (as Proposed)	\$	252.8	\$	252.8
44	2031 O&M (L38 + L40)	\$	1,885.2		
45	2031 Medical Expense (L36 + L42)	\$	118.7		
46	2031 Capital Related Costs (as Proposed) (L35 + L43)	\$	3,762.4		
47	2031 Misc. Revenue	\$	141.1		
48	2031 FF&U	\$	131.0	\$	7.1
49	<b>2031 Revenue Requirement (Sum of lines 44 through 48)</b>	<b>\$</b>	<b>6,038.4</b>	<b>\$</b>	<b>314.4</b>